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Economic
Council

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News release

RESOURCES, TARIFFS, AND TRADE: ONTARIO'S STAKE

TORONTO, Nov. 30, 1976: The Canadian tariff has not succeeded in encouraging the growth of secondary manufacturing in Ontario, according to a research study released today by the Ontario Economic Council. Resources, Tariffs, and Trade: Ontario's Stake, by James R. Williams of the Department of Economics at McMaster University, states that the amount of processing and manufacturing in Ontario is actually below the level possible under free trade.

The study is an inquiry into the cost of Canadian resources -- land, capital and labour -- and the effect of tariffs on both cost and production. "The adverse effects of tariffs are much more subtle than their benefits, and do not become apparent except through comprehensive study," says author Williams. "Only occasionally, after becoming aware of the difference between the cost of some consumer item in Canada and its cost abroad is one induced to consider the possible adverse effects of tariffs."

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The study says, "The Canadian tariff does not support the growth of Ontario manufacturing relative to other provinces, although it probably has had the effect of encouraging relatively greater agricultural production in Ontario. Ontario's best prospects seem to lie in the processing of minerals and metals other than iron ore. Protection of the iron and steel sector seems to have had the greatest adverse effects in Ontario outside the iron and steel sector itself. This is because the iron and steel sector is an important supplier to other industries, and the tariff therefore increases the cost of intermediate goods in Canada, in user industries, reducing the competitiveness of Canadian industries outside the iron and steel sector."

Professor Williams suggests that the Canadian tariff has raised the cost of end-product processing, relative to earlier stages of processing, by shifting production to commodities using resources that are scarce in Canada. He maintains that free trade would encourage final processing, because intermediate products would be obtained at world prices and more abundant Canadian resources would be used.

According to the study, a tariff may protect some enterprises competing with imports, thus encouraging a higher level of output, but typically this is achieved with a loss of production and employment in firms belonging to the export sector. In addition, the tariff adds to the costs of consumer goods. "In designing its tariff, Canada is aiding some industries to expand while forcing others to contract," Professor Williams maintains.

The study concludes that because of the Canadian tariff, Ontario should specialize in the type of production that best utilizes her inventory of capital, labour and resources on the international rather than domestic markets.

The Ontario Economic Council, established in 1962 as an independent advisor to government, undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario and to support the advancement of all sectors of the province.

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RESOURCES, TARIFFS AND TRADE: ONTARIO'S STAKE

Published by University of Toronto Press, 5201 Dufferin Street, Downsview M3H 5T8. Available also from Ontario Government Bookstore, 880 Bay Street, Toronto M7A 1N8 Price $ 7.50

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- a research study commissioned by the Ontario Economic Council

ABOUT THE AUTHOR:

JAMES R. WILLIAMS is a professor of economics at McMaster University, Hamilton, Ontario. He was educated at the University of Minnesota, has contributed to a number of academic and economic journals, and is the author of the forthcoming University of Toronto Press publication: "The Canadian-U.S. Tariff and Canadian Industry."